SCHOOL FOR ADVANCED RESEARCH
Santa Fe, New Mexico

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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CliftonLarsonAllen LLP
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Independent Auditors' Report

To the Board of Directors of
School for Advanced Research
Santa Fe, New Mexico

We have audited the accompanying financial statements of School for Advanced Research (the School) (a non-profit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the School as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The management's discussion and analysis on pages 3-5 is presented to supplement the basic financial statements. We have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis-of-Matter Regarding Investments in Partnerships

As discussed in Note 3, these financial statements include investments in partnerships valued by the general partner of each partnership in the absence of readily ascertainable market values. At June 30, 2014 and 2013, that portion of the School's investment was $9,434,425 and $10,740,259, respectively, which represents 29% and 35%, respectively, of the School's net assets at that date. Because of inherent uncertainty of valuation of these estimates, the estimate by each general partner of these values may differ significantly from values that would have been used had a ready market for those investments existed, and the difference could be material.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Albuquerque, New Mexico
December 19, 2014

SCHOOL FOR ADVANCED RESEARCH
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

As management of the School for Advanced Research (the School or SAR), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2014.

Financial Highlights

- The School's net assets increased by $1,339,802 to $32,108,057 from June 30, 2013. Revenues decreased by $372,267, while expenses decreased by $1,047,699.

- Assets increased by $823,300 to $33,107,549. Liabilities decreased by $516,502 to $999,492 at June 30, 2014.

Overview of the Financial Statements

The operations of the School are accounted for in the basic financial statements, which include a statement of financial position, a statement of activities and changes in net assets, and are accompanied by a statement of cash flows. Additionally, there are notes to the financial statements that provide additional information that is essential to a full understanding of the data provided in the statements. The statement of financial position is presented as of June 30, 2014 and 2013.

Condensed Comparative Data

	2014	2013
Total assets (cash, investments, accounts receivable, prepaid expenses, and property and equipment)	$ 33,107,549	$ 32,284,249
Total liabilities (accounts payable and debt)	999,492	1,515,994
Net assets	$ 32,108,057	$ 30,768,255
Revenues:		
Contributions	$ 1,449,634	$ 2,255,126
Investment income	3,258,290	2,737,578
Other	386,170	473,657
Total revenues	5,094,094	5,466,361
Expenses:		
Program expenses	2,490,081	2,509,231
Supporting services	1,264,211	2,276,760
Total expenses	3,754,292	4,785,991
Change in net assets	1,339,802	680,370
Net assets, beginning of year	30,768,255	30,087,885
Net assets, end of year	$ 32,108,057	$ 30,768,255

Financial Analysis of the School

Assets of the School consist primarily of cash, investments and property and equipment. Liabilities consist of accounts payable, accrued expenses and mortgage payable.

Revenue decreased by $372,267 (7%) for the year ended June 30, 2014. Contributions, sales and fees decreased by $892,979 (49%) due to a $334,615 bequest received in fiscal year 2013 that was not repeated in fiscal year 2014, and the School's reduced funding request from a major foundation in fiscal year 2014. Total expenses decreased by $1,031,699 (22%). Expenses were intentionally reduced due to the reduced revenues. Investment income increased as a result of market changes from year to year. Overall, investment balances (excluding cash and cash equivalents) increased by $625,554 from June 30, 2013.

Investment Results

Total cash and investments increased $301,625 from $28,029,848 at June 30, 2013 to $28,331,473 at June 30, 2014. Net investment income, including unrealized gains, increased to $3,258,290 in fiscal year 2014 from $2,737,578 in fiscal year 2013. This is primarily attributable to increases in returns.

Property, Plant and Equipment

The School had no disposals of property, plant and equipment during fiscal year 2014. $61,565 in capital purchases were made during the year, consisting of building and improvements.

Long-term Debt

The School had a mortgage payable balance of $769,706 at June 30, 2014, with $242,961 of that balance due in the upcoming fiscal year. The debt is associated with the purchase of adjacent land.

Current Trends and Conditions

On June 16, 2014, Dr. Michael F. Brown began his term as president of the School for Advanced Research (the School) after 34 years as a member of the Williams College faculty. He takes on the job with enthusiasm and a commitment to careful stewardship of this century-old institution, the nation's only residential research center primarily focused on anthropology and Native American studies.

Key developments:

- To strengthen its financial situation, the School hired its first professional fundraiser as VP for development. The School is putting together a team that will allow the organization to compete more effectively in the regional and national philanthropic environment.

- The School Indian Arts Research Center's (IARC) director left the School in April to take a senior position at the National Museum of the American Indian in Washington. The School's management expects to launch a search for her replacement early in 2015. The School will seek a scholar/administrator who can strengthen intellectual ties between the IARC and the Resident Scholar program while sustaining the close working relations with Santa Fe's Native American communities.

- The Advanced Seminar program and the School Press remain active. Recent seminars have covered a broad range of themes, from the rise of global obesity to the impact of intensive infant care on human evolution. Similarly diverse seminars have been scheduled for 2015.

- The School's website will soon be offering more content, including reports of recent seminars, Open Access versions of classic book chapters, and pre-print samples from forthcoming works. The goal is to give scholars and the general public a better sense of the important research that takes place on campus.

- The recent purchase of undeveloped land adjacent to the campus ensures our ability to expand in the coming decades. Before undertaking new construction, the School expects to initiate a campus planning process that will identify opportunities for more efficient staffing of the School's various divisions.

Looking toward the future, the School is focusing considerable energy on several key issues:

- While the School receives welcome support from several large philanthropies, the new development team is focusing on broadening support from the general public. This is consistent with national data which show that nearly 85 percent of giving comes from individuals.

- Sales at the School's Press have nearly recovered to pre-recession levels, although the changing nature of the national book market continues to challenge all scholarly publishers. The staff is monitoring sales and production strategies closely with an eye toward participating fully in the transition to digital publishing and limiting inventory via the use of print-on-demand technologies.

- The School's endowment has performed well in the past two years. Although not fully restored to its pre-recession level, the board is encouraged by recent progress. They will continue working to invest the endowment prudently and strive to reduce the annual draw on the endowment from its current 5.5 percent to 5 percent or less.

Finally, it bears noting that the School remains committed to a "year-ahead funding" model in which all funds needed for operations are raised in the prior fiscal year. This careful planning enables us to meet current financial obligations while achieving the program goals outlined in our strategic plan. Although Fiscal year 2014 was a challenging year because of key leadership transitions, the School looks ahead to Fiscal year 2015 with a solid strategic plan, continued sensible budgeting, and a prudent investment strategy.

SCHOOL FOR ADVANCED RESEARCH
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash and cash equivalents	$ 839,645	$ 1,163,574
Current pledges receivable, net of discount	119,305	255,677
Accounts receivable:		
Grants	764,420	-
Publications	15,752	1,318
Other	2,444	2,210
Prepaid expenses	46,846	64,692
Inventory	626,846	628,415
Total current assets	2,415,258	2,115,886
PROPERTY AND EQUIPMENT, NET	1,245,724	1,336,632
OTHER ASSETS		
Investments	27,491,828	26,866,274
Long-term pledges receivable, net of discount	8,995	19,713
Land held for future use	1,945,744	1,945,744
Total other assets	29,446,567	28,831,731
TOTAL ASSETS	$ 33,107,549	$ 32,284,249

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable	$ 74,308	$ 151,543
Accrued payroll and related liabilities	123,728	138,618
Deferred compensation liability	-	180,000
Accrued interest payable	31,750	45,833
Current maturities of long-term debt	242,961	230,294
Total current liabilities	472,747	746,288
LONG-TERM DEBT, less current maturities	526,745	769,706
Total liabilities	999,492	1,515,994
NET ASSETS		
Unrestricted	19,040,713	16,809,031
Temporarily restricted	2,050,187	2,942,067
Permanently restricted	11,017,157	11,017,157
Total net assets	32,108,057	30,768,255
TOTAL LIABILITIES AND NET ASSETS	$ 33,107,549	$ 32,284,249

The accompanying notes are an integral part of the financial statements.

SCHOOL FOR ADVANCED RESEARCH
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2014

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions and grants	$ 452,877	$ 996,757	$ -	$ 1,449,634
Membership dues	84,215	-	-	84,215
Book sales and royalties	228,469	-	-	228,469
Interest and dividend	440,272	-	-	440,272
Net realized and unrealized gain on investment	2,818,018	-	-	2,818,018
Rental	4,800	-	-	4,800
Other	68,686	-	-	68,686
Net assets released from restrictions	1,888,637	(1,888,637)	-	-
Total revenues	5,985,974	(891,880)	-	5,094,094
EXPENSES				
Program services	2,490,081	-	-	2,490,081
Supporting services:				
Management and general	797,381	-	-	797,381
Membership programming	275,124	-	-	275,124
Fundraising	191,706	-	-	191,706
Total expenses	3,754,292	-	-	3,754,292
CHANGE IN NET ASSETS	2,231,682	(891,880)	-	1,339,802
NET ASSETS, BEGINNING OF YEAR	16,809,031	2,942,067	11,017,157	30,768,255
NET ASSETS, END OF YEAR	$ 19,040,713	$ 2,050,187	$ 11,017,157	$ 32,108,057

The accompanying notes are an integral part of the financial statements.

SCHOOL FOR ADVANCED RESEARCH
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
Year Ended June 30, 2013

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUES				
Contributions and grants	$ 749,133	$ 1,505,993	$ -	2,255,126
Membership dues	72,700	-	-	72,700
Book sales and royalties	223,150	-	-	223,150
Interest and dividend	785,818	-	-	785,818
Net realized and unrealized gain on investment	1,951,760	-	-	1,951,760
Rental	17,800	-	-	17,800
Other	160,007	-	-	160,007
Net assets released from restrictions	2,076,260	(2,076,260)	-	-
Total revenues	6,036,628	(570,267)	-	5,466,361
EXPENSES				
Program services	2,509,231	-	-	2,509,231
Supporting services:				
Management and general	1,596,019	-	-	1,596,019
Membership programming	522,998	-	-	522,998
Fundraising	157,743	-	-	157,743
Total expenses	4,785,991	-	-	4,785,991
CHANGE IN NET ASSETS	1,250,637	(570,267)	-	680,370
NET ASSETS, BEGINNING OF YEAR	15,558,394	3,512,334	11,017,157	30,087,885
NET ASSETS, END OF YEAR	$ 16,809,031	$ 2,942,067	$ 11,017,157	$ 30,768,255

The accompanying notes are an integral part of the financial statements.

SCHOOL FOR ADVANCED RESEARCH
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,339,802	$ 680,370
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized gain on investments	(618,689)	(867,454)
Net unrealized gain on investments	(2,199,329)	(1,084,306)
Reinvested gains and interest	(312,063)	(733,280)
Depreciation	152,473	191,808
Effects of changes in operating assets and liabilities:		
Pledges receivable	147,090	506,702
Accounts receivable	(779,088)	34,974
Prepaid expenses and other current assets	17,846	(45,820)
Inventories	1,569	14,150
Accounts payable	(77,235)	107,389
Accrued payroll and related expenses	(14,890)	(8,112)
Accrued interest	(14,083)	45,833
Deferred compensation obligation	(180,000)	180,000
Net cash used in operating activities	(2,536,597)	(977,746)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	9,625,027	8,239,987
Purchase of investments	(7,120,500)	(5,379,554)
Purchases of property and equipment	(61,565)	(31,892)
Purchase of land held for future use	-	(1,945,744)
Net cash provided by investing activities	2,442,962	882,797
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of note payable	(230,294)	-
Proceeds from long-term debt	-	1,000,000
Net cash (used in) provided by financing activities	(230,294)	1,000,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(323,929)	905,051
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,163,574	258,523
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 839,645	$ 1,163,574
CASH PAID FOR		
Interest	$ 55,000	$ -

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Definition of Reporting Entity

The School for Advanced Research (formerly The School for Advanced Research on the Human Experience) (the School) provides a dynamic environment for the advanced study and communication of knowledge about human culture, evolution, history and creative expression.

The School draws upon its century-deep roots in the American Southwest, anthropology, and indigenous arts to present programs, publications and initiatives that impart the learning of social scientists, humanists, and artists to inform the thoughts and actions of scholars, artists, educators, and the interested public.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the methods and lives used to compute depreciation expense. Actual results could differ from those estimates.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned rather than received, and expenses are recognized when the related liability is incurred rather than when paid.

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under ASC 958, the School is required to report information regarding its financial position and activities according to three classes of net assets.

Unrestricted Net Assets – These assets represent sources whose use is not limited to or restricted by donors. Unrestricted net assets have arisen from exchange transactions, receipt of unrestricted contributions and expirations or satisfaction of existing restrictions.

The School treats restricted contributions whose restrictions are satisfied during the same fiscal year as unrestricted support. All contributions made to the School are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets – These assets result from (a) contributions and other inflows of assets whose use by the School is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations; (b) other assets enhancements and diminishments subject to

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the same kinds of stipulations; and (c) imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the School pursuant to those stipulations.

Permanently Restricted Net Assets – These assets have donor-imposed restrictions that stipulate that resources be maintained permanently but permit the School to use up or expend part or all of the income or economic benefits derived from the donated assets.

Cash and Cash Equivalents

For purposes of preparing the statements of cash flows, the School considers all cash and financial instruments with original maturities of three months or less as cash and cash equivalents. Cash and cash equivalents include cash on hand, cash in banks and money market accounts held with a brokerage firm.

The School maintains its depository accounts with various financial institutions. Balances in these accounts periodically exceed federally insured limits. The School has not experienced any losses from, and believes it is not exposed to, significant credit risk from these deposits.

Investments

Investments include marketable equity, corporate and government debt securities that are carried at current market value based on year end quoted stock market prices. Market alternatives include ownership of funds and single manager funds carried at estimated value as determined in good faith by the general partner of each investment. The general partners of these limited partnerships determine market value based upon fair value of the underlying investments of the limited partnerships, as there is no ready market for these investments. Realized gains and losses are recorded on a specific identification method upon the sale or write-off of investment assets of the limited partnerships. Investment valuation adjustments are determined by general partners based on an increase or impairment in value in underlying investments during the investment-holding period.

Investment Management Policy

Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Finance Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Institutional Fund's objectives. However, the investment managers are to make reasonable efforts to control risk and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

Adherences to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers are evaluated regularly for adherence to investment discipline. Evaluation is ongoing and based on results in quarterly reports and over market cycles, usually three to five years.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Management reviews the collectability of its receivables and, if necessary, records a reserve for its estimate of uncollectible accounts. Historical write-offs and current facts and circumstances are the primary bases for this estimate. When an account is deemed uncollectible, it is charged off against the reserve. Management has deemed all amounts to be collectible and, accordingly, has not recorded an allowance for uncollectible accounts at June 30, 2014 and 2013.

Inventory

Inventory consists primarily of books and publications, and is carried at the lower of cost or market. Cost is determined by specific identification.

Property and Equipment

The School owns and occupies a campus that encompasses approximately 16 acres. The School has 10 buildings with over 49,500 square feet which are home to all of the activities of the School.

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. Expenditures exceeding $1,000 that enhance or extend the useful life of property and equipment are capitalized. Maintenance and repair costs are expensed as incurred. Depreciation is provided for all depreciable assets on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 39 years.

The School reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Impairment of Long-lived Assets and Long-lived Assets to be Disposed of

The School reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amounts of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of, if any, are reported as the lower of the carrying amount or the fair value less costs to sell. There was no impairment of long-lived assets at June 30, 2014 and 2013.

Collection and Library

The collections, which were acquired through purchases and contributions since the School's inception, are not recognized as assets on the statements of financial position. The School adheres to the policies of the American Association of Museums, which discourages the

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

assignment of dollar values to collections not intended for sale in the marketplace. Purchases of collection items are recorded as decreases in unrestricted net assets in the year in which the items are acquired, or as decreases in temporarily restricted net assets if the assets used to purchase the items are restricted by donors. Contributed collection items are not reflected on the financial statements. Proceeds from deaccessions are reflected as increases in the appropriate net asset classes and are designated for collection acquisition and care.

Permanently Restricted Net Assets

Authoritative guidance includes the following financial statement disclosure requirements for the School for the years ended June 30, 2014 and 2013.

Classification of Net Assets – Endowment funds are used to account for investments in which the principal is temporarily or permanently restricted or Board-designated for a specific purpose.

Interpretation of Relevant Law – The School has interpreted the Uniform Prudent Management of Institutions Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanent restricted net assets: (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the School, and (7) the School investment policies.

Income Taxes

The School is a non-profit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. As such, their normal activities do not result in any income tax liability. The School pays taxes on unrelated business income.

The School would recognize accrued interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no such interest or penalties recorded for the years ended June 30, 2014 and 2013.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the School is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of June 30, 2014, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year ended June 30, 2011 and forward.

Support and Revenue

Contributions received, including unconditional promises, are recognized as revenue in the period received and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence of any donor or time restrictions.

Pledges are recorded at the net present value of their estimated future cash flows. The discount on pledges is computed using the risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. The School believes pledges receivable are presented at net realizable value.

The School reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations on the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Contributions of services are recognized only if the services received create or enhance non-financial assets, require specialized skills, and are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Grants

The School performs services under reciprocal contracts with the National Science Foundation. Revenues from these contracts are recognized as the services are performed and related expenses are recorded as incurred.

Functional Allocation of Expense

The School reports its expenses according to four functional classifications: Program Services, Management and General, Membership Development and Fundraising. Direct costs are recorded to the functional classification that the expense relates to. All other expenses are allocated among these classifications on the basis of programs and services benefited.

Advertising Costs

The School incurs certain advertising costs in connection with the promotion of its mission. Advertising costs are expensed as incurred. Advertising expense totaled $17,483 and $14,456 for the years ended June 30, 2014 and 2013, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Expenses

Accrued expenses include $79,715 and $78,330 of accrued vacation as of June 30, 2014 and 2013, respectively.

Reclassifications

Certain reclassifications have been made to the 2013 balances to conform with the 2014 presentation.

Subsequent Events

Management evaluated subsequent events through December 19, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to December 19, 2014, that provided additional evidence about conditions that existed at June 30, 2014 have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2014.

NOTE 2 – CONDITIONAL PROMISE TO GIVE

The School is the beneficiary of a bequest totaling $5,880,000. There are no restrictions for use associated with the bequest. Associated revenue will be recognized when the estate is validated by the probate court.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In determining fair value, the School uses various valuation approaches within the ASC 820 fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. ASC 820 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. ASC 820 defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1—Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

- Level 2—Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following is a description of the valuation methodologies used for assets measured at fair value:

Marketable securities traded in active markets are measured at fair value using Level 1 inputs. The fair values are based on quoted market prices at the reporting date.

Market alternatives are classified within Level 3 of the valuation hierarchy and are valued at market value as determined in good faith by the general partner of each fund, in accordance with Cooperative Agreements. The general partners of these limited partnerships determine market value based upon fair value of the underlying investments of the limited partnerships, as there is no ready market for these investments. Realized gains and losses are recorded on a specific identification method upon the sale or write off of investment assets of the limited partnerships.

The following tables present assets and liabilities measured at fair value by classification within the fair value hierarchy as of June 30, 2014 and 2013:

As of June 30, 2014

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Stocks:				
Common stocks	$ 7,048,915	$ -	$ -	$ 7,048,915
Preferred stocks	71,973	-	-	71,973
Exchange Traded Funds:				
Large value funds	2,873,420	-	-	2,873,420
Mutual Funds:				
Bond funds	7,201,856	-	-	7,201,856
International growth funds	861,239	-	-	861,239
Market Alternatives:				
Partnerships	-	-	9,434,425	9,434,425
Total	$ 18,057,403	$ -	$ 9,434,425	$ 27,491,828

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As of June 30, 2013

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Stocks:				
Common stocks	$ 4,659,514	$ -	$ -	$ 4,659,514
Preferred stocks	16,022	-	-	16,022
Exchange Traded Funds:				
Large value funds	1,183,389	-	-	1,183,389
Mutual Funds:				
Bond funds	9,550,154	-	-	9,550,154
International growth funds	716,936	-	-	716,936
Market Alternatives:				
Partnerships	-	-	10,740,259	10,740,259
Total	$ 16,126,015	$ -	$ 10,740,259	$ 26,866,274

The following information summarizes the difference between cost and the estimated fair value for investments:

As of June 30, 2014	Cost	Estimated Fair Value	Market Value Over (Under) Cost
Stocks:			
Common stocks	$ 5,718,969	$ 7,048,915	$ 1,329,946
Preferred stocks	67,325	71,973	4,648
Exchange Traded Funds:			
Large value funds	2,676,158	2,873,420	197,262
Mutual Funds:			
Bond funds	7,185,831	7,201,856	16,025
International growth funds	784,682	861,239	76,557
Market Alternatives:			
Partnerships	4,945,114	9,434,425	4,489,311
Total assets at fair value	$ 21,378,079	$ 27,491,828	$ 6,113,749

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

As of June 30, 2013	**Cost**	**Estimated Fair Value**	**Market Value Over (Under) Cost**
Stocks:			
Common stocks	$ 4,186,240	$ 4,659,514	$ 473,274
Preferred stocks	29,043	16,022	(13,021)
Exchange Traded Funds:			
Large value funds	1,249,313	1,183,389	(65,924)
Mutual Funds:			
Bond funds	9,809,602	9,550,154	(259,448)
International growth funds	773,449	716,936	(56,513)
Market Alternatives:			
Partnerships	6,976,431	10,740,259	3,763,828
Total assets at fair value	$ 23,024,078	$ 26,866,274	$ 3,842,196

The following is a reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2014 and 2013.

	2014	**2013**
Beginning balance	$ 10,740,259	$ 9,452,702
Sales at cost	(2,458,459)	(24,091)
Realized gain (loss)	427,414	(11,188)
Net change in unrealized gains and losses	725,484	1,322,836
Ending balance	$ 9,434,425	$ 10,740,259

Unrealized gains and losses applicable to instruments valued using significant unobservable inputs (Level 3) are included in the combined statements of activities for the years ended June 30, 2014 and 2013.

The following summarizes information related to Level 3 investments whose fair value is determined based upon Net Asset Value per Share (NAV).

	Estimated Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Partnerships (a)	$ 9,434,425	None	Quarterly	60 – 95 days

(a) This class includes investments in several partnerships incorporated in the Cayman Islands and registered under Cayman Islands Mutual Funds Law. The fair values of the investments in this class have been estimated using the net asset value per share of the investments, and applying that to the number of shares held by the School. The partnerships invest in both U.S. and non-U.S. bank debt, private notes, real estate, common stock, preferred stock, and corporate bonds.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable are discounted and recorded at the net present value of estimated future cash flows. The School believes that all pledges receivable will be fully collectible when due and, therefore, has not recorded an allowance on pledges receivable.

	2014	2013
Expected cash collection	$ 133,600	$ 276,000
Less discount to present value	(5,300)	(610)
Present value of pledges receivables	$ 128,300	$ 275,390

The amount of pledges receivable expected to be collected in the next five years follows:

2015	$ 123,600
2016	10,000
Total contribution receivable	$ 133,600

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2014	2013
Buildings and improvements	$ 5,331,472	$ 5,331,472
Land improvements	401,319	401,319
Equipment	879,396	861,175
Furniture and fixtures	132,315	125,604
	6,744,502	6,719,570
Less accumulated depreciation	(5,812,735)	(5,660,262)
	931,767	1,059,308
Land	70,000	70,000
* Project in process	243,957	207,324
	313,957	277,324
Total property and equipment	$ 1,245,724	$ 1,336,632

* Projects in process consists of a work plaza building and other expenses related to the construction of a future building.

NOTE 5 - PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation expense for the years ended June 30, 2014 and 2013 was $152,473 and $191,808, respectively.

NOTE 6 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2014	2013
5.50% note with certain individuals, due in four annual installments of $285,294, including interest, commencing September 7, 2013 and continuing through September 7, 2016, when the remaining balance is due. Property is pledged as collateral.	$ 769,706	$ 1,000,000
Less current maturities	242,961	230,294
Total long-term debt, net of current maturities	$ 526,745	$ 769,706

Aggregate maturities on long-term debt subsequent to June 30, 2014 are as follows:

Year ending June 30,

2015	$ 242,961
2016	256,324
2017	270,421
Total	$ 769,706

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30:

	2014	2013
Capital construction	$ 982,242	$ 1,408,029
Indian Arts Research Center	416,308	506,884
Scholarships and internship programs	360,118	415,121
Program	158,529	261,643
Discounted value of unconditional promises to give	132,990	275,390
Seminars	-	75,000
Total	$ 2,050,187	$ 2,942,067

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets are released from restrictions by incurring expenses satisfying the restricted purposes. Net assets released from restrictions were comprised of the following:

	2014	2013
Capital construction	$ 732,610	$ 486,932
Indian Arts Research Center	492,950	454,155
Collections on pledges	244,000	23,610
Program	218,575	206,142
Scholarships and internship programs	125,502	110,607
Seminars	75,000	-
Conversion of pledges	-	759,092
Publications	-	35,722
Total	$ 1,888,637	$ 2,076,260

Conversion of pledges represents an unconditional promise to give that was made conditional by the donor during 2013. In 2006, a donor made a pledge in the amount of $880,000 to be paid in fiscal year 2015. The pledge was recorded at its present value of $759,092. During fiscal year 2013, the donor chose to change the pledge to be included in her will rather than payable in fiscal year 2015. As a result, this pledge was written off during fiscal year 2013 and the corresponding $880,000 is included in conditional promises to give (see Note 2).

NOTE 8 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support the following at June 30, 2014 and 2013:

General Operations	$ 2,978,344
Weatherhead Scholarship Program	2,166,000
Centennial Endowment	1,288,800
Indian Arts Research Center Operations	1,057,258
Staley Anthropology Award	925,148
Lamon Native American Research and Art	864,762
Artist in Residence Endowment - King	500,000
Annenburg Conservation Program	500,000
Artist in Residence Endowment - Dobkin	422,936
Crichton Membership Lecture	155,000
Dubin Scholarship Program	145,000
Employee retirement plan contributions	13,909
Total	$ 11,017,157

NOTE 9 – ENDOWMENTS

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides industry guidance to organizations similar to the School. The State of New Mexico adopted UPMIFA effective July 1, 2009. The School's Board of Directors has determined that all permanently restricted net assets meet the definition of endowment funds under UPMIFA.

Endowment Investment and Spending Policies

The School has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for programs supported by its endowments while seeking to maintain the purchasing power of the endowments.

In determining the prudent amount to distribute in a given year, the School considers the donor's intent that the fund continues in perpetuity, the purpose of the fund as stated in the fund agreement, and relevant economic factors. The School's current spending policy is to distribute a percentage of the rolling three-year average of the fair market value of the endowments, as determined each year by the Board of Directors.

The investment policies establish a return objective through diversification of asset classes. The current long-term return objective is the rate of inflation plus spending, net of investment fees. To satisfy its long-term rate of return objectives, the School relies on a total return strategy in which investment returns may be achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The School targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters.

Changes in Endowment Net Assets

The composition of the School's endowments by net asset class, and a reconciliation of beginning and ending balances, are reflected in permanently restricted net assets in the accompanying statements of activities and changes in net assets.

NOTE 10 – COLLECTIONS

The School's collection of Native American pottery, art, artifacts, library of research materials and scholarly works is maintained for research and educational purposes in furtherance of its mission and public service. Each of the items is cataloged, preserved and cared for, and activities verifying its existence and assessing its condition are performed continuously. Proceeds from the disposition of collection and library items, if any, are designated for collection acquisition and care. Proceeds from collection deaccessions was $0 in 2014 and 2013. Investments include amounts restricted ($285,855 in 2014 and $271,811 in 2013) for acquisition or maintenance of collection items.

NOTE 11 – COMMITMENTS

Leases

The School leases equipment under a long-term operating lease. The long-term operating lease expires September 2019. Rental expense was $6,520 and $7,090 for the years ended June 30, 2014 and 2013, respectively. Future minimum lease payments required under long-term operating leases follow:

2015	$	6,840
2016		6,840
2017		6,840
2018		6,840
2019		4,988
2020 and thereafter		-
Total	$	32,348

Deferred Compensation

In June 2013, the School entered into a contract buy-out agreement with its former President. The plan called for compensation of $180,000, paid in equal installments over a period of one year, commencing on July 15, 2013. The associated liability was $180,000 at June 30, 2013. The cost associated with the contract buy-out was fully funded by a donor as of June 30, 2013. All amounts associated with this buy out were paid as of June 30, 2014.

Retirement Plans

The School has a Defined Contribution Retirement Plan that covers all eligible employees. The plan includes provisions for mandatory participation beginning after one year of employment and the attainment of age 21, with required participation at three years and age 30. Contributions are based on percentages of regular salary, and total 2% by the School and 4% by the participant. The expense related to this plan was $76,802 and $88,903 in 2014 and 2013, respectively. The pension plan is administered by TIAA CREF.

The School offers all employees the option of participating in a Tax Deferred Annuity Plan through the fund sponsors of the Teachers Insurance and Annuity Association or the College Retirement Equities Fund. Employees are eligible to participate beginning on the first of the month following employment. Employees contribute to this plan according to a salary reduction agreement. There are no employer contributions under this plan.

NOTE 12 - RELATED PARTY TRANSACTIONS

The School receives contributions, pledges, and bequests from members of the Board of Directors. During the year ended June 30, 2014, the School received $500,006 from 23 members of the Board of Directors. The total pledges receivable balance at June 30, 2014 for five members of the Board of Directors was $107,500. During the year ended June 30, 2013, the School received $489,564 from 24 members of the Board of Directors. The total pledges receivable balance at June 30, 2013 for nine members of the Board of Directors was $65,500. All receivables from the Board of Directors are considered collectible.

SUPPLEMENTARY INFORMATION

SCHOOL FOR ADVANCED RESEARCH
SCHEDULES OF NET ASSETS
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Endowment	$ 12,147,105	$ 11,813,368
Operating Funds	3,110,980	1,956,803
Weatherhead Endowment	2,938,989	2,858,230
Indian Arts Research Endowment	2,418,473	2,352,017
Lamon Endowment	1,578,416	1,535,043
Cash Reserves	1,274,532	1,200,628
Retirement and Benefit Endowment	1,234,552	1,349,532
Invested in Plant Fund	1,064,306	1,191,846
J.I. Staley Endowment	932,128	883,893
Lambert House Fund	623,080	606,354
Second Century Capital Campaign/Work Plaza	606,354	579,315
Annenberg Conversations Endowment	583,073	567,051
King Artist Endowment	515,879	501,703
Dobkin Artist Endowment	455,026	442,523
ARCT Grant for Tract 6B purchase	306,823	306,823
Centennial Endowment	302,685	298,464
IARC Collections Endowment	253,653	294,368
ARCT Native Museum Professionals Training Grant	235,654	246,683
Dubin Artist Endowment	176,766	220,701
Adams Scholar Fund	166,971	204,457
V. Campbell Resident Scholar Fund	165,571	171,909
ARCT Collections Improvement and Dissemination Grant	159,566	171,075
F. Crichton Lecture Endowment	147,437	143,386
Indian Arts Fund Endowment	124,850	140,797
Bunting Summer Scholar Fund	100,308	121,419
ARCT for Facilities Improvement	96,203	97,479
SAR Press Book Projects	92,163	92,451
J.I. Staley Program	62,079	88,154
Paloheimo Annual Report Fund	35,000	67,479
President's Council	29,289	40,000
White Antelope Blanket Fund	28,828	40,000
Schwartz Arroyo Hondo Fund	28,070	35,000
IARC Collections Fund	27,765	26,399
Archaeology Grant Program	23,741	1,087
Dobkin Social Change Initiative Projects Fund	4,646	9,974
Cotsen Summer Scholar Fund	18,155	8,780
Linda Cordell Book Award	15,459	-

SCHOOL FOR ADVANCED RESEARCH
SCHEDULES OF NET ASSETS (CONTINUED)
Years Ended June 30, 2014 and 2013

	2014	2013
President's Cultivation Fund	7,353	7,353
Indian Arts Fund	4,437	4,437
Library Book Purchase Fund	4,100	3,792
Native American Artist Collaboration Program	3,577	3,577
Lannan Literary Art Program	3,633	2,896
Native Arts Forum	382	392
C. Smeall Resident Scholar Fund	-	11,227
ARCT Greening Grant	-	25,234
Luce Foundation Grant for Fellowship in Asian Studies	-	23,741
Advanced Seminar Publications Fund	-	20,415
TOTAL NET ASSETS	$ 32,108,057	$ 30,768,255